American Wealth and Real Estate

The Federal Reserve Board of Governors published on June 9 the "Financial Accounts of the United States" for the First Quarter of 2016. It includes "Flow of Funds, Balance Sheets, and Integrated Macroeconomic Accounts."

The report tells us that the net worth (assets minus liabilities) of households and nonprofits rose to $88.1 trillion. The country's asset values were boosted in that quarter by a $500 billion increase in the value of residential real estate, which is actually an increase in land values. Net worth had fallen during the Great Recession of 2008 to $56 trillion. About 64% of Americans are homeowners.

Domestic nonfinancial debt outstanding was $45.7 trillion, composed of household debt of $14.3 trillion, nonfinancial business debt of $13 trillion, and total government debt of $18.3 trillion.

In 2015, US net wealth was $80 trillion. Household ownership of real estate was $25 trillion out of a total of $31 trillion of nonfinancial assets. Nonfinancial noncorporate businesses assets were $12 trillion, of which real estate was $11 trillion. The market value of domestic corporations was $29 trillion. Federal government nonfinancial assets were $3.2 trillion, of which real estate structures were $1.5 trillion. There is no report on the land value held by the federal government. State and local governments nonfinancial assets were worth $10 trillion, of which structures are $9.7 trillion.

Foreign financial claims on the U.S.A. were $22.8 trillion, while US claims on foreign assets were $17.2 trillion, for net claims of minus $5.6 trillion.

The federal government's report of the distribution of income is misleading for rental income. The category "rental income of persons" at $657 billion excludes the rental income of real estate owned by corporations and governments, and is net of all expenses and depreciation. It includes the rental of both buildings and land, but excludes the portion of land rent paid in property taxes and income taxes, and the portion of land rent paid as mortgage debt service. This rental income is net of depreciation, which is based on the tax code rather than real economic loss.

In the savings and investment report, the Fed puts gross savings at $3.4 trillion and net savings at $552 trillion. Net savings are total savings minus borrowing for consumption. One problem is that much of the net private savings of $1.3 trillion is offset by total government borrowing of $723 billion: $588 billion of federal borrowing and $135 billion of state and local borrowing.

The total value of reported real estate value was, in trillions, $25 for households, $11 for noncorporate business, and ($9.7+1.5)*2 = $22.4 for governments, multiplying the structure value by 2 in the assumption that half of the real estate value is land. Since research concludes that over 25 percent of corporate assets are in real estate, that puts corporate real estate value at $29/4 trillion, or $7.25 trillion. That gives us a total value of US real estate of around $65 trillion. Capitalized at five percent, that yields $3.25 in annual rental.

If half of real estate value is land, then the annual land rent is half of $3.25, or $1.6 trillion. If all taxes were shifted out of wages, capital yields, and produced goods, much potential rent would become converted to kinetic rent as the deadweight loss and the rent paid via income and sales taxes would be converted into explicit land rent, say about double the current measured rent, hence we are back to $3.25, but in land rent.

Total government spending in 2015 was $6.4 trillion, of which pensions, medical care, and welfare was $3.1 trillion. If workers and investors kept all their gains, these transfers would not be needed to maintain living standards. Thus, subtracting transfers from $6.4 gives us about $3.3 trillion in government services and subsidies, and after subtracting subsidies such as to agriculture, government spending of $3.2 trillion is roughly equal to the land rent, in accord with the Henry George Theorem of public finance, which shows how the value of public goods equals the land rent.

Several conclusions can be drawn from the data:

1. Government data do not calculate the income from the factors of production, the land, labor, and capital goods.

2. Per capita net worth is about $300,000, of which more than half is real estate value.

3. Much of the rise in US "wealth" since the Great Recession is the recovery of land values.

4. The data indicate that land rent could pay for the public goods provided by government.

The land value of an economy is financial wealth, but not economic wealth, as it is not produced. A higher price of land implies a greater cost for the next buyer. The gain to the landowner is offset by the loss to the buyer in having to pay a higher price and borrow more funds. The higher purchase price of land can also be due to excessive speculation as well as restrictions on development. A shift to full land value taxation would drop the purchase price of land to near zero, which implies that much of the land value is due to the subsidy of public goods not paid for by the served landowner.

To a large extend, the price of land is the capitalized value of the wages and capital yields extracted for public goods. The higher land value is offset by the lower wages and capital yields.

Therefore it would be enlightening for the Federal Reserve to also publish data on the net worth of the economy after subtracting out the puff that is land value.

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